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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 001250

SIPDIS

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TAGS: [EPET](#) [ENRG](#) [PGOV](#) [EINV](#) [PINR](#) [IZ](#)

SUBJECT: KRG LOOKING TO BUY GOODWILL THROUGH OIL EXPORT

REF: A. BAGHDAD 1230

[1](#)B. BAGHDAD 1222

Classified By: Classified by Acting EMIN Michael Dodman, reasons 1.4 (b ,d)

[1](#)1. (C) Summary: KRG officials report that their move to accept the GOI terms for export of oil from fields in the Kurdistan Region stems from a desire to show goodwill on the long-standing oil dispute. They term their move a unilateral step made without preconditions. In terms of the financial aspect, the KRG hopes that after several months of seeing the oil flowing from the KR and proceeds bolstering the GOI budget, they will be able to engage in "quiet diplomacy" with senior GOI officials on sustainable financial terms, i.e., with the GOI making a contribution to the cost of producing the oil. End summary.

The KRG Makes Shahrستاني an Offer he can't Refuse

[1](#)2. (C) In discussions May 12 with Erbil RRT Team Leader, KRG Minister of Natural Resources Ashti Harami and Falah Mustafa Bakir, foreign relations advisor to KRG PM Barzani, reviewed the KRG's agreement with the GOI to permit export of oil from two fields in the Kurdistan Region effective June 1 (ref A). Both stressed that the KRG decision to accept the terms for export that had been laid down last year by GOI Oil Minister Shahrستاني was a sign of the KRG's goodwill. Minister Ashti termed this a KRG "contribution" to benefit all of Iraq and an effort to prove that the KRG accepts that Iraq's oil, regardless of where it is located, belongs to all the Iraqi people. Falah Mustafa, who had reviewed the issue with PM Barzani, stressed as well the public relations aspects of the decision, and that going ahead with oil exports will prove that this is "technically feasible." Ashti added that they had structured their approach to the Oil Ministry in a manner that "Shahrستاني could not say no." (Comment: As described ref A, the Oil Ministry's approval for the Taq Taq field was structured in a manner that would appear to, at least temporarily, prevent the commencement of exports from that field. However, the KRG announced today that exports from Taq Taq, via tanker truck, would begin June 1, along with those from Tawke. We will attempt to clarify with both GOI and KRG. End comment)

Paying Now Winning Later

[1](#)3. (C) Both KRG officials acknowledge that the current terms - with all the revenue from the export accruing to the GOI and the KRG receiving only its normal 17% share of proceeds, yet also carrying the full burden of having to reimburse the producers for the cost of production - are not sustainable. Minister Ashti said the KRG thinking is that after several months of exports under these terms the KRG will have proven its goodwill and will begin some "quiet diplomacy" with senior GOI officials about arranging more favorable terms, i.e., getting GOI agreement to pay some or all of the cost of production. Both Ashti and Falah Mustafa stressed that this

dialogue would not involve Oil Minister Shahrستاني, but instead would focus on the prime minister, finance minister, and the GOI's Economic Committee.

KRG Picking the Time to Show Their Hand

¶4. (C) Ashti added that the KRG is considering publishing the terms of the production sharing agreements with the two consortia developing the Tawke and Taq Taq fields, although this required the consent of the firms involved. Publishing the terms would, Ashti claimed, prove the KRG's assertion (which the national Oil Ministry has long challenged) that Q(which the national Oil Ministry has long challenged) that production sharing agreements are in the best interests of all Iraqis.

Hydrocarbons Legislation Still Needed

¶6. (C) Ashti noted that agreement on exports from the two fields does not reduce the need for a formal revenue sharing law (part of the long-stalled hydrocarbons legislation package). But Ashti was pessimistic on early progress. He thought a deal on the legislation was more likely after the national elections planned for later this year.

Comment

¶7. (C) The KRG's move, and the Oil Ministry's willingness to cooperate, continues to evoke surprise among observers. The Chair of the parliamentary Oil and Gas Committee (a Kurd)

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told us May 12 that he still did not believe the agreement was genuine. The KRG's effort to gain the moral high ground in this dispute comes amid tensions on other fronts (for example, regarding the Ninewa governor, ref B). Notwithstanding continued GOI public statements that the agreement to permit oil exports does not alter their view that the KRG production sharing agreements are "illegal," this has the potential to alter the debate over management of the oil sector - provided political will can be found on both sides to prevent the deal from collapsing and then capitalizing on the opportunity with concerted "quiet diplomacy."

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